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Relevant and faithful under the microscope

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International Accounting Standards Board's Qualitative Characteristics under the microscope

The Qualitative Characteristics (QCs) of decision-useful financial information, as set out in the Conceptual Framework (CF) for financial reporting of the International Accounting Standards Board (IASB), are fundamental for standard setting. Companies rely on the use of QCs when making accounting policy changes and choices. The CF states that there are two fundamental characteristics of decision-useful financial information: Relevance, affected by materiality; and Faithful Representation, being financial information that is complete, neutral and free from error, which are enhanced by the QCs of comparability, consistency, verifiability, timeliness and understandability. This commentary presents the opinion that the present CF remains incomplete and there is a lack of emphasis on important concepts such as prudence and matching. We propose a revalidation of the QCs to gain a deeper sense of what is still missing from them, particularly as far as constraints go, whilst ensuring that the voices of both users and preparers are listened to.

Academics have reflected upon the QC of transparency, meaning enhanced disclosure, additional information, and improved visibility of information, and non-secrecy by companies and countries of registration, having been omitted from the present QCs¹. Indeed, the Financial Conduct Authority (FCA) has recently issued its own disclosure and transparency rules for its regulated banks. It is therefore imperative that any significant QC omissions are considered in the context of robust scientific research. Investigators across the globe have attempted to operationalise the QCs by ranking them²⁻⁴, however, despite using sophisticated statistical procedures, findings remain flawed due to the evident and remaining gap between preparers and users' rankings.

We are in the process of analysing data, which we believe will further elucidate the inclusion conundrum⁵. We trust that a revised chapter in the international CF on the QCs of decision-useful financial information is clearly on the cards and entice readers to watch this space for what we think will lead to a freshly formulated and newly submitted chapter for consideration by the IASB, with potential for implementation on an international level. Our research will likely point to further validated QCs being considered as appropriate by preparers of international and domestic banks annual reports. It has yet to be concluded whether further QCs can be identified with confidence, yet the incorporation of Foucauldian critical discourse analysis has given us our boldest attempt because this method allows us to focus on power relationships in accounting society, as expressed through language and practices of the IASB who ultimately decide on the QCs, and the IASB's interaction with professional accountants preparing international banks annual reports. In addition, geographical and cultural spread has been adequately attained by examining the annual reports of both building societies and regulated banks listed on the UK FTSE, Johannesburg and Australian stock exchange main boards. Finally, using content analysis allows for the extraction of the nature and extent of the changes in QCs of decision-useful financial information found in the international and domestic UK banks annual report disclosures, compared to those found since publication of the revised CF.

It is now time to multiply the magnification of our qualitative lens, and in anticipation of the conclusions that can be drawn from our emerging data, we intend this commentary to prompt some fresh thinking on the effectiveness of the updated QCs.

Gareth Evans, Joanne Lusher and Stephen Day (University of the West of Scotland)

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